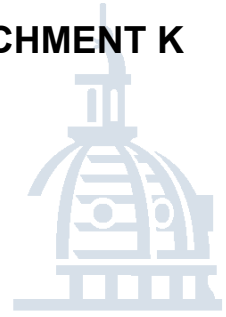




ISSUE REVIEW

Fiscal Services Division

August 27, 2012



Federal Budget Control Act of 2011

ISSUE

This **Issue Review** provides an overview and update of the sequester provision of the federal Budget Control Act of 2011.

BACKGROUND

The federal Budget Control Act of 2011 (BCA) was signed into law on August 2, 2011, and is designed to provide for an increase in the federal debt limit while reducing long-term budget deficits. The BCA includes four major sections: the federal debt limit, deficit reduction, a balanced budget Constitutional amendment review process, and various higher education financial assistance programs. This **Issue Review** focuses on the deficit reduction provisions and, more specifically, sequestration. The sequestration process has the potential to significantly impact federal funds allocated to Iowa in future years.

The BCA includes automatic procedures, known as sequestration, designed to lower the deficit by reducing federal spending through a combination of across-the-board (ATB) spending reductions and spending targets designed to restrain government spending on discretionary and mandatory (entitlement) federal programs. Sequestration was included in the BCA as a backup plan in case the President and Congress failed to enact a 10-year plan to reduce the federal deficit by \$1.2 trillion produced by the Joint Select Committee on Deficit Reduction. The Committee did not create a plan by its mandated deadline of January 15, 2012, and, thus, Congress and the President did not act. Without legislative action, sequestration is scheduled to commence in January 2013.

The BCA, through the sequestration process, reduces federal spending by \$984.0 billion between FFY 2012 and FFY 2021. The \$1.2 trillion spending reduction target for the Joint Select Committee on Deficit Reduction is reduced to \$984.0 billion due to assumed interest savings of \$216.0 billion resulting from the required spending reductions under the sequester. Of the \$984.0 billion spending reduction, approximately half is to come from defense spending and half is to come from nonexempt, nondefense discretionary and mandatory programs. A complete list of exemptions can be reviewed in Appendix A. Approximately \$21.0 billion of the total spending reduction was applied in FFY 2012. The FFY 2013 spending reductions are to be made through automatic ATB reductions to all spending not exempted in the BCA. The FFY 2014 through FFY 2021 spending reductions are to be determined through the regular appropriations process consistent with specified spending caps included in the BCA for defense and nondefense discretionary spending, as well as ATB reductions for mandatory nondefense programs.

The Congressional Budget Office estimates that the sequester will result in 7.8% ATB reductions to nondefense discretionary and mandatory programs, and 10.0% ATB reductions to

defense programs in FFY 2013. The ATB reductions are applied to all programs, projects, and activities within each nonexempt budget account. Nondefense reductions will occur mainly in the areas of education, energy, environment, criminal justice, labor, community development, and human services. A number of federal programs are exempt from the ATB reductions, including Medicaid, the Temporary Assistance for Needy Families (TANF) block grant, the Supplemental Nutrition Assistance Program (SNAP), Social Security, Children's Health Insurance Program (CHIP), Federal-Aid Highway Obligation Limitations, and other programs designed mainly to serve low-income populations. In addition, payments to trust funds from excise taxes or other receipts are exempted.

CURRENT SITUATION

While the total amount of required reductions is known, at this time, it is not possible to determine the precise implications of the sequester. The U.S. Office of Management and Budget (OMB) is charged with implementation of the sequester and has the authority to apply exemptions and special rules. Examples contained in the BCA include special rules that apply a reduced ATB reduction to Medicare and community health centers, and apply the ATB reduction to regular unemployment compensation benefits but exempt the extended unemployment compensation benefit program. The OMB will determine the reduction percentages based on the enacted FY 2013 appropriations and baseline projections in effect in January 2013. On July 31, 2012, the OMB sent a letter to federal agencies notifying them that the OMB plans to hold discussions with agencies over the next few months to identify how sequestration may impact each agency. Additionally, Congress recently passed and the President signed legislation requiring OMB to provide details by early September 2012 regarding how the sequester will be applied, including any planned exemptions and estimated reduction percentages to specific programs.

Estimates of Sequester Impacts

According to information provided by the National Conference of State Legislatures (NCSL), states experienced an average reduction in federal discretionary funding of 2.7% in FY 2012 due to the BCA. Federal Funds Information for States (FFIS) estimated in February 2012 that Iowa's nondefense federal funds will be reduced by \$28.7 million in FFY 2012 and an additional \$72.5 million in FFY 2013. Federal fiscal years begin on October 1 and end on September 30 of the subsequent year.

Iowa received an estimated \$5,951.4 million in federal funds in FY 2012. A reduction of \$72.5 million is equivalent to a cut of approximately 1.2% of total federal funds received by Iowa. However, this statistic masks the impact of the BCA because spending cuts are targeted at specific programs. Thus, some programs will be spared cuts while others may experience cuts of up to 10.0%.

In June 2012, FFIS released estimates of anticipated FFY 2013 federal spending levels for 42 federal nondefense (discretionary and mandatory) programs representing nearly 70.0% of federal spending tracked by FFIS. Of these 42 programs, 27 programs are projected to experience a reduction in spending due to the BCA and impact Iowa. This is not a complete list, but provides examples of federal funding reductions due to the BCA. The table on the next page, "Federal Spending on Selected Programs in Iowa," identifies these 27 programs, including the enacted FFY 2012 funding level, estimated FFY 2013 funding level under sequestration, and change from enacted FFY 2012 to estimated FFY 2013. The total

anticipated reduction in federal funds to Iowa is \$46.6 million in FFY 2013 for these 27 programs based on an ATB reduction of 7.8%. Some funds may pass through directly to local governments. To date, State agencies have not produced in-depth analyses of or developed plans to prepare for the potential impacts of the sequester.

Federal Spending on Selected Programs in Iowa Enacted FFY 2012 and Estimated FFY 2013 (in thousands)				
Program	FFY 2012 Enacted	Est. FFY 2013 w/Sequester	Change FFY 2012 to FFY 2013	
Women, Infants & Children (WIC)	\$ 46,661	\$ 43,022	\$	-3,639
Title I - Grants to Local Education Agencies	84,110	77,550		-6,560
Vocational Rehabilitation - State Grants	33,200	30,611		-2,589
Special Education - Basic State Grant	121,911	112,402		-9,509
Improving Teacher Quality	18,836	17,367		-1,469
Career and Technical Education - State Grants	11,964	11,031		-933
CDC: State and Local Capacity (Bioterrorism)	6,690	6,168		-522
Child Care and Development Block Grant	21,098	19,452		-1,646
Community Services Block Grant	7,297	6,728		-569
Consolidated Health Centers ¹	20,841	22,638		1,797
Head Start	59,456	54,818		-4,638
Low-Income Home Energy Assistance	54,813	50,537		-4,276
Promoting Safe and Stable Families	2,676	2,467		-209
Social Services Block Grant	16,680	15,379		-1,301
Substance Abuse and Prevention Block Grant	13,422	12,375		-1,047
State Homeland Security Grant	2,801	2,583		-218
Community Development Block Grant - Entitlement	11,804	10,883		-921
Community Development Block Grant - Non-Entitlement	21,054	19,411		-1,643
EPA - Clean Water State Revolving Fund	19,527	18,004		-1,523
EPA - Drinking Water State Revolving Fund	15,321	14,126		-1,195
State Criminal Alien Assistance	406	374		-32
Justice Assistance Grants	1,908	1,760		-148
WIA - Adult Employment and Training ²	3,671	3,385		-286
Dislocated Workers ²	5,396	4,975		-421
Employment Services State Grants ²	6,440	5,937		-503
Unemployment Insurance - State Administration	28,965	26,706		-2,259
WIA - Youth Activities ²	4,962	4,575		-387
Total	\$ 641,910	\$ 595,264	\$	-46,646

¹BCA special rule reduces the percentage cut to this program to 2.0%; the Affordable Care Act appropriates additional funds over FFY 2012 appropriation; these two circumstances produce a net increase in the FFY 2013 appropriation over FFY 2012.

²Funding levels reflect program years rather than fiscal years.

Source: Federal Funds Information for the States, www.ffis.org

FFIS also provides estimates of the impact of the sequester on defense spending across the states. FFIS applies the 10.0% ATB reduction to total defense spending (procurement, salaries, and grants), resulting in a \$50.0 billion reduction in spending nationwide. Iowa's share of this funding reduction will be approximately \$239.4 million in FFY 2013. However, the BCA provides the President the authority to exempt some or all military personnel funding from sequestration. President Obama chose to exempt all military personnel funding and notified Congress of this decision in a letter on July 31, 2012. This decision requires that other categories of defense spending (procurement and grants) must experience greater reductions to make up for the exemption of military personnel spending. For estimating purposes, one option is to reduce

procurement and grants spending proportionally based on each category's relative share of funding to Iowa while holding the overall defense funding reductions to the state steady at \$239.4 million. Excluding personnel, procurement spending is 96.2% and grants spending is 3.8% of federal defense spending in Iowa. Under this scenario, defense procurement spending in Iowa will be reduced from \$1,556.7 million in FFY 2010 to \$1,326.4 million in FFY 2013 and defense grants to Iowa will be reduced from \$60.9 million in FFY 2010 to \$51.9 million in FFY 2013, or a 14.8% reduction to both categories. However, the OMB may choose to apply additional reductions to procurement and grants in a different manner.

For FFY 2014 through FFY 2021, the impacts by program are nearly impossible to determine at this time. Spending decisions for domestic discretionary and defense programs will be made via the normal appropriations process consistent with spending caps outlined in the BCA as opposed to ATB reductions implemented in FFY 2013. This process allows Congress, if it so chooses, to apply reductions to programs currently exempt from the BCA or to change special rules currently applied to select programs under the BCA in order to meet mandated savings levels. Nondefense mandatory programs will incur an ATB reduction, but the exact ATB percentage will be determined by the level of savings accrued via the appropriations process for the discretionary programs as compared to the overall mandated savings level (i.e. larger reductions to discretionary programs will result in smaller reductions to mandatory programs).

FEDERAL FISCAL YEAR 2013 APPROPRIATIONS UPDATE

As of July 2012 President Obama and Congress have not come to an agreement on the future of the planned sequestration. President Obama's FFY 2013 budget proposal includes tax and spending policies that will eliminate the sequester altogether. The U.S. House of Representatives budget plan proposes to eliminate the sequester by further reducing funding for discretionary, nondefense programs and eliminating spending reductions for defense programs. The U.S. Senate has approved spending targets that exceed spending limits contained in the BCA. As of June 29, 2012, the U.S. House of Representatives has approved six of 12 FFY 2013 appropriations bills while the U.S. Senate has not approved any appropriations bills. If an agreement between Congress and the President is not reached by January 2013, the sequester provisions of the BCA will go into effect.

Alternatives to implementing the sequester include delaying implementation, modifying exemptions or special rules, or repealing sequester provisions altogether. Legislation is required to delay, modify, or avoid sequestration. An agreement is not likely prior to the November 2012 elections.

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Programs and Activities Exempt from the Budget Control Act of 2011

(Source: Federal Funds Information for the States)

SEC. 11. EXEMPT PROGRAMS AND ACTIVITIES.

(a) DESIGNATIONS.—Section 255 of BBEDCA is amended by redesignating subsection (i) as (j) and striking “1998” and inserting in lieu thereof “2010”.

(b) SOCIAL SECURITY, VETERANS PROGRAMS, NET INTEREST, AND TAX CREDITS.—Subsections (a) through (d) of section 255 of BBEDCA are amended to read as follows:

“(a) SOCIAL SECURITY BENEFITS AND TIER I RAILROAD RETIREMENT BENEFITS.—Benefits payable under the old-age, survivors, and disability insurance program established under title II of the Social Security Act (42 U.S.C. 401 et seq.), and benefits payable under section 231b(a), 231b(f)(2), 231c(a), and 231c(f) of title 45 United States Code, shall be exempt from reduction under any order issued under this part.

“(b) VETERANS PROGRAMS.—The following programs shall be exempt from reduction under any order issued under this part: “All programs administered by the Department of Veterans Affairs. “Special Benefits for Certain World War II Veterans (28–0401–0–1–701).

“(c) NET INTEREST.—No reduction of payments for net interest (all of major functional category 900) shall be made under any order issued under this part.

“(d) REFUNDABLE INCOME TAX CREDITS.—Payments to individuals made pursuant to provisions of the Internal Revenue Code of 1986 establishing refundable tax credits shall be exempt from reduction under any order issued under this part.”.

(c) OTHER PROGRAMS AND ACTIVITIES, LOW-INCOME PROGRAMS, AND ECONOMIC RECOVERY PROGRAMS.—Subsections (g) and (h) of section 255 of BBEDCA are amended to read as follows:

“(g) OTHER PROGRAMS AND ACTIVITIES.—“(1)(A) The following budget accounts and activities shall be exempt from reduction under any order issued under this part:

“Activities resulting from private donations, bequests, or voluntary contributions to the Government. “Activities financed by voluntary payments to the Government for goods or services to be provided for such payments.

“Administration of Territories, Northern Mariana Islands Covenant grants (14–0412–0–1–808). “Advances to the Unemployment Trust Fund and Other Funds (16–0327–0–1–600).

“Black Lung Disability Trust Fund Refinancing (16–0329–0–1–601). “Bonneville Power Administration Fund and borrowing authority established pursuant to section 13 of Public Law 93–454 (1974), as amended (89–4045–0–3–271).

“Claims, Judgments, and Relief Acts (20–1895–0–1–808).

“Compact of Free Association (14–0415–0–1–808).

“Compensation of the President (11–0209–01–1–802).

“Comptroller of the Currency, Assessment Funds (20– 8413–0–8–373).

“Continuing Fund, Southeastern Power Administration (89–5653–0–2–271).

“Continuing Fund, Southwestern Power Administration (89–5649–0–2–271).

“Dual Benefits Payments Account (60–0111–0–1–601).

“Emergency Fund, Western Area Power Administration (89–5069–0–2–271).

“Exchange Stabilization Fund (20–4444–0–3–155).

“Farm Credit Administration Operating Expenses Fund (78–4131–0–3–351).

“Farm Credit System Insurance Corporation, Farm Credit Insurance Fund (78–4171–0–3–351).

“Federal Deposit Insurance Corporation, Deposit Insurance Fund (51–4596–0–4–373).

“Federal Deposit Insurance Corporation, FSLIC Resolution Fund (51–4065–0–3–373).

“Federal Deposit Insurance Corporation, Noninterest Bearing Transaction Account Guarantee (51–4458–0–3– 373).

“Federal Deposit Insurance Corporation, Senior Unsecured Debt Guarantee (51–4457–0–3– 373).

“Federal Home Loan Mortgage Corporation (Freddie Mac).

“Federal Housing Finance Agency, Administrative Expenses (95–5532–0–2–371).

“Federal National Mortgage Corporation (Fannie Mae).

“Federal Payment to the District of Columbia Judicial Retirement and Survivors Annuity Fund (20–1713–0–1– 752).

“Federal Payment to the District of Columbia Pension Fund (20–1714–0–1–601).

“Federal Payments to the Railroad Retirement Accounts (60–0113–0–1–601).

“Federal Reserve Bank Reimbursement Fund (20– 1884–0–1–803).

“Financial Agent Services (20–1802–0–1–803).

“Foreign Military Sales Trust Fund (11–8242–0–7– 155).

“Hazardous Waste Management, Conservation Reserve Program (12–4336–0–3–999).

“Host Nation Support Fund for Relocation (97–8337–0–7–051).

“Internal Revenue Collections for Puerto Rico (20–5737–0–2–806).

“Intragovernmental funds, including those from which the outlays are derived primarily from resources paid in from other government accounts, except to the extent such funds are augmented by direct appropriations for the fiscal year during which an order is in effect.

“Medical Facilities Guarantee and Loan Fund (75–9931–0–3–551).

“National Credit Union Administration, Central Liquidity Facility (25–4470–0–3–373).

“National Credit Union Administration, Corporate Credit Union Share Guarantee Program (25–4476–0–3–376).

“National Credit Union Administration, Credit Union Homeowners Affordability Relief Program (25–4473–0–3–371).

“National Credit Union Administration, Credit Union Share Insurance Fund (25–4468–0–3–373).

“National Credit Union Administration, Credit Union System Investment Program (25–4474–0–3–376).

“National Credit Union Administration, Operating fund (25–4056–0–3–373).

“National Credit Union Administration, Share Insurance Fund Corporate Debt Guarantee Program (25–4469–0–3–376).

“National Credit Union Administration, U.S. Central Federal Credit Union Capital Program (25–4475–0–3–376).

“Office of Thrift Supervision (20–4108–0–3–373).

“Panama Canal Commission Compensation Fund (16–5155–0–2–602).

“Payment of Vietnam and USS Pueblo prisoner-of-war claims within the Salaries and Expenses, Foreign Claims Settlement account (15–0100–0–1–153).

“Payment to Civil Service Retirement and Disability Fund (24–0200–0–1–805).

“Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (97–0850–0–1–054).

“Payment to Judiciary Trust Funds (10–0941–0–1–752).

“Payment to Military Retirement Fund (97–0040–0–1–054).

- “Payment to the Foreign Service Retirement and Disability Fund (19–0540–0–1–153).
- “Payments to Copyright Owners (03–5175–0–2–376).
- “Payments to Health Care Trust Funds (75–0580–0–1–571).
- “Payment to Radiation Exposure Compensation Trust Fund (15–0333–0–1–054).
- “Payments to Social Security Trust Funds (28–0404–0–1–651).
- “Payments to the United States Territories, Fiscal Assistance (14–0418–0–1–806).
- “Payments to trust funds from excise taxes or other receipts properly creditable to such trust funds.
- “Payments to widows and heirs of deceased Members of Congress (00–0215–0–1–801).
- “Postal Service Fund (18–4020–0–3–372).
- “Radiation Exposure Compensation Trust Fund (15–8116–0–1–054).
- “Reimbursement to Federal Reserve Banks (20–0562–0–1–803).
- “Salaries of Article III judges.
- “Soldiers and Airmen’s Home, payment of claims (84–8930–0–7–705).
- “Tennessee Valley Authority Fund, except nonpower programs and activities (64–4110–0–3–999).
- “Tribal and Indian trust accounts within the Department of the Interior which fund prior legal obligations of the Government or which are established pursuant to Acts of Congress regarding Federal management of tribal real property or other fiduciary responsibilities, including but not limited to Tribal Special Fund (14–5265–0–2–452), Tribal Trust Fund (14–8030–0–7–452), White Earth Settlement (14–2204–0–1–452), and Indian Water Rights and Habitat Acquisition (14–5505–0–2–303).
- “United Mine Workers of America 1992 Benefit Plan (95–8260–0–7–551).
- “United Mine Workers of America 1993 Benefit Plan (95–8535–0–7–551).
- “United Mine Workers of America Combined Benefit Fund (95–8295–0–7–551).
- “United States Enrichment Corporation Fund (95–4054–0–3–271).
- “Universal Service Fund (27–5183–0–2–376).
- “Vaccine Injury Compensation (75–0320–0–1–551).

“Vaccine Injury Compensation Program Trust Fund (20–8175–0–7–551).

“(B) The following Federal retirement and disability accounts and activities shall be exempt from reduction under any order issued under this part:

“Black Lung Disability Trust Fund (20–8144–0–7–601). “Central Intelligence Agency Retirement and Disability System Fund (56–3400–0–1–054).

“Civil Service Retirement and Disability Fund (24– 8135–0–7–602).

“Comptrollers general retirement system (05–0107–0– 1–801).

“Contributions to U.S. Park Police annuity benefits, Other Permanent Appropriations (14–9924–0–2–303).

“Court of Appeals for Veterans Claims Retirement Fund (95–8290–0–7–705).

“Department of Defense Medicare-Eligible Retiree Health Care Fund (97–5472–0–2–551).

“District of Columbia Federal Pension Fund (20–5511– 0–2–601).

“District of Columbia Judicial Retirement and Survivors Annuity Fund (20–8212–0–7–602).

“Energy Employees Occupational Illness Compensation Fund (16–1523–0–1–053).

“Foreign National Employees Separation Pay (97– 8165–0–7–051).

“Foreign Service National Defined Contributions Retirement Fund (19–5497–0–2–602).

“Foreign Service National Separation Liability Trust Fund (19–8340–0–7–602).

“Foreign Service Retirement and Disability Fund (19– 8186–0–7–602).

“Government Payment for Annuitants, Employees Health Benefits (24–0206–0–1–551).

“Government Payment for Annuitants, Employee Life Insurance (24–0500–0–1–602).

“Judicial Officers’ Retirement Fund (10–8122–0–7– 602).

“Judicial Survivors’ Annuities Fund (10–8110–0–7– 602).

“Military Retirement Fund (97–8097–0–7–602).

“National Railroad Retirement Investment Trust (60– 8118–0–7–601).

“National Oceanic and Atmospheric Administration retirement (13–1450–0–1–306).

“Pensions for former Presidents (47–0105–0–1–802).

“Postal Service Retiree Health Benefits Fund (24– 5391–0–2–551).

“Public Safety Officer Benefits (15–0403–0–1–754).

“Rail Industry Pension Fund (60–8011–0–7–601).

“Retired Pay, Coast Guard (70–0602–0–1–403).

“Retirement Pay and Medical Benefits for Commissioned Officers, Public Health Service (75–0379–0–1–551).

“Special Benefits for Disabled Coal Miners (16–0169–0–1–601).

“Special Benefits, Federal Employees’ Compensation Act (16–1521–0–1–600).

“Special Workers Compensation Expenses (16–9971–0–7–601).

“Tax Court Judges Survivors Annuity Fund (23–8115–0–7–602).

“United States Court of Federal Claims Judges’ Retirement Fund (10–8124–0–7–602).

“United States Secret Service, DC Annuity (70–0400–0–1–751).

“Voluntary Separation Incentive Fund (97–8335–0–7–051).

“(2) Prior legal obligations of the Government in the following budget accounts and activities shall be exempt from any order issued under this part:

“Biomass Energy Development (20–0114–0–1–271).

“Check Forgery Insurance Fund (20–4109–0–3–803).

“Credit liquidating accounts.

“Credit reestimates.

“Employees Life Insurance Fund (24–8424–0–8–602).

“Federal Aviation Insurance Revolving Fund (69–4120–0–3–402).

“Federal Crop Insurance Corporation Fund (12–4085–0–3–351).

“Federal Emergency Management Agency, National Flood Insurance Fund (58–4236–0–3–453).

“Geothermal resources development fund (89–0206–0–1–271).

“Low-Rent Public Housing—Loans and Other Expenses (86–4098–0–3–604).

“Maritime Administration, War Risk Insurance Revolving Fund (69–4302–0–3–403).

“Natural Resource Damage Assessment Fund (14–1618–0–1–302).

“Overseas Private Investment Corporation, Noncredit Account (71–4184–0–3–151).

“Pension Benefit Guaranty Corporation Fund (16– 4204–0–3–601).

“San Joaquin Restoration Fund (14–5537–0–2–301).

“Servicemembers’ Group Life Insurance Fund (36– 4009–0–3–701).

“Terrorism Insurance Program (20–0123–0–1–376).

“(h) LOW-INCOME PROGRAMS.—The following programs shall be exempt from reduction under any order issued under this part:

“Academic Competitiveness/Smart Grant Program (91– 0205–0–1–502).

“Child Care Entitlement to States (75–1550–0–1–609).

“Child Enrollment Contingency Fund (75–5551–0–2–551).

“Child Nutrition Programs (with the exception of special milk programs) (12–3539–0–1–605).

“Children’s Health Insurance Fund (75–0515–0–1–551).

“Commodity Supplemental Food Program (12–3507–0–1– 605).

“Contingency Fund (75–1522–0–1–609).

“Family Support Programs (75–1501–0–1–609).

“Federal Pell Grants under section 401 Title IV of the Higher Education Act.

“Grants to States for Medicaid (75–0512–0–1–551).

“Payments for Foster Care and Permanency (75–1545–0– 1–609).

“Supplemental Nutrition Assistance Program (12–3505–0– 1–605).

“Supplemental Security Income Program (28–0406–0–1– 609).

“Temporary Assistance for Needy Families (75–1552–0– 1–609).”.

(d) ADDITIONAL EXCLUDED PROGRAMS.—Section 255 of BBEDCA is amended by adding the following after subsection (h):

“(i) ECONOMIC RECOVERY PROGRAMS.—The following programs shall be exempt from reduction under any order issued under this part:

“GSE Preferred Stock Purchase Agreements (20–0125–0–1–371).

“Office of Financial Stability (20–0128–0–1–376).

“Special Inspector General for the Troubled Asset Relief Program (20–0133–0–1–376).

“(j) SPLIT TREATMENT PROGRAMS.—Each of the following programs shall be exempt from any order under this part to the extent that the budgetary resources of such programs are subject to obligation limitations in appropriations bills:

“Federal-Aid Highways (69–8083–0–7–401).

“Highway Traffic Safety Grants (69–8020–0–7–401).

“Operations and Research NHTSA and National Driver Register (69–8016–0–7–401).

“Motor Carrier Safety Operations and Programs (69–8159–0–7–401).

“Motor Carrier Safety Grants (69–8158–0–7–401).

“Formula and Bus Grants (69–8350–0–7–401).

“Grants-In-Aid for Airports (69–8106–0–7–402).”.

UPDATE OF FEDERAL BUDGET CONTROL ACT OF 2011

Update. The Fiscal Services Division published an *Issue Review* titled "[Budget Control Act of 2011 \(BCA\)](#)" on August 27, 2012. This synopsis provides an update of actions that impact the potential implementation of the sequester provisions of the BCA.

Federal Report. The U.S. Office of Management and Budget (OMB) published a [report](#) on September 14, 2012, required by the Sequestration Transparency Act of 2012 (P.L. 112-155) that articulates the potential funding effect of sequestration in FFY 2013. The report specifies four broad categorical across-the-board percentage reductions for FFY 2013. These percentages are subject to change should Congress specify funding levels that differ from the FFY 2013 continuing resolution (CR) signed into law on September 28, 2012 (see last paragraph for additional CR information). The reduction percentages are as follows:

- Nonexempt defense discretionary programs = 9.4%
- Nonexempt nondefense discretionary programs = 8.2%
- Medicare = 2.0%
- Nonexempt defense mandatory programs = 10.0%
- Nonexempt nondefense mandatory programs = 7.6%

Reductions. These percentage reductions will be applied to FFY 2013 funding levels in place as of January 2, 2013, for nonexempt programs. The OMB continues to review the application of exemptions and special rules authority in the BCA and will refine guidance as appropriate. Agencies have very little discretion concerning implementation, but may maintain some flexibility regarding the timing of cuts. As an example, the U.S. Department of Education has announced that for most programs, it would apply sequestration to funds available in July 2013 for the 2013-2014 school year.

Estimated State Impacts. Federal Funds Information for the States (FFIS) has updated projections for state-specific impacts based on the OMB report. The table at the end of this update includes enacted FFY 2012 spending levels, CR FFY 2013 spending levels, estimated FFY 2013 spending levels based on sequester reduction percentages applied to FFY 2013 CR spending levels, and the change between the estimated FFY 2013 spending level with the sequester reduction percentages and enacted FFY 2012 spending levels for Iowa. The table identifies 28 programs that will be impacted, including the addition of the National Highway Performance Program that the OMB report noted would not be exempt from the sequester. The total anticipated reduction in federal funds to Iowa for these 28 programs in FFY 2013 is approximately \$49.7 million. Some funds may pass through directly to local governments.

Continuing Resolution. As referenced above, Congress and the President have taken temporary action on the FFY 2013 budget via passage of a CR that expires on March 27, 2013. The CR sets discretionary spending at the annualized level of spending specified in the BCA for FFY 2013: \$1.047 trillion. This spending level provides a 0.612% increase for most programs. The CR also allows mandatory and entitlement programs whose budget authority is provided in appropriations bills to operate at the FFY 2013 current-law level and authorizes programs that would have otherwise expired on September 30, 2012 (including TANF). The CR does not modify the sequester or postpone its effective date. If Congress does not pass other FFY 2013 appropriations legislation and the sequester is not repealed, the FFY 2013 spending levels specified in the CR will be the basis upon which across-the-board cuts will be applied via the sequester in January 2013.

Federal Spending on Selected Programs in Iowa Enacted FFY 2012 and Estimated FFY 2013 (in thousands)					
Program	FFY 2012 Enacted	FFY 2013 Continuing Resolution	Est. FFY 2013 w/Sequester	Change FFY 2012 to FFY 2013 w/Sequester	
Women, Infants & Children (WIC)	\$ 46,661	\$ 46,947	\$ 43,097	\$	-3,564
Title I - Grants to Local Education Agencies	84,226	84,742	77,793		-6,433
Vocational Rehabilitation - State Grants	33,200	34,362	31,751		-1,449
Special Education - Basic State Grant	121,911	122,657	112,599		-9,312
Improving Teacher Quality	18,836	18,951	17,397		-1,439
Career and Technical Education - State Grants	11,964	12,037	11,050		-914
CDC: State and Local Capacity (Bioterrorism)	6,889	6,931	6,363		-526
Child Care and Development Block Grant	21,098	21,227	19,486		-1,612
Community Services Block Grant	7,297	7,342	6,740		-557
Consolidated Health Centers ¹	20,841	23,172	21,973		1,132
Head Start	59,456	59,820	54,914		-4,542
Low-Income Home Energy Assistance	54,813	55,148	50,626		-4,187
Promoting Safe and Stable Families	2,676	2,678	2,472		-204
Social Services Block Grant	16,680	16,614	15,351		-1,329
Substance Abuse and Prevention Block Grant	13,422	13,504	12,397		-1,025
State Homeland Security Grant	2,801	2,818	2,587		-214
Comm. Development Block Grant - Entitlement	11,804	11,876	10,902		-902
Comm. Development Block Grant - Non-Entitlement	21,054	21,182	19,445		-1,609
EPA - Clean Water State Revolving Fund	19,321	19,439	17,845		-1,476
EPA - Drinking Water State Revolving Fund	15,321	15,415	14,151		-1,170
State Criminal Alien Assistance	406	408	375		-31
Justice Assistance Grants	2,018	2,031	1,864		-154
WIA - Adult Employment and Training ²	3,671	3,693	3,391		-280
Dislocated Workers ²	5,396	5,429	4,984		-412
Employment Services State Grants ²	6,440	6,479	5,948		-492
Unemployment Insurance - State Administration	28,965	29,142	26,753		-2,212
WIA - Youth Activities ²	4,962	4,993	4,583		-379
National Highway Performance ³	284,077	280,409	279,685		-4,392
Total	\$ 926,206	\$ 929,446	\$ 876,522	\$	-49,684

¹BCA special rule reduces the percentage cut to this program to 2.0%; the Affordable Care Act appropriates additional funds over FFY 2012 appropriation; these two circumstances produce a net increase in the FFY 2013 appropriation over FFY 2012.

²Funding levels reflect program years rather than fiscal years.

³Most federal highway spending is exempt; however, the National Highway Performance Program is not; OMB states that the program is subject to the 7.6% sequester rate.

Source: Federal Funds Information for the States, www.ffis.org

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FY 2014 AND FY 2015 SCHOOL AID ESTIMATES

Updated School Aid Estimates. The LSA has updated school aid estimates for FY 2014 and FY 2015 based on revised school aid assumptions for growth in property valuation, enrollments, and weightings. These estimates will be revised at the end of December to reflect actual budget enrollment and weighting data for the FY 2014 school aid funding amounts that are currently being collected by the Department of Education.

Allowable Growth Rates. The General Assembly has not yet established an allowable growth rate for regular school aid or the State categorical supplement for FY 2014. If no allowable growth rate is established, the FY 2014 State and district cost per pupil amounts will remain at the FY 2013 levels (resulting in a 0.0% allowable growth rate for FY 2014). The following table provides estimates for FY 2014 (separate estimates for 0.0%, 2.0%, and 4.0%).